

SECRET

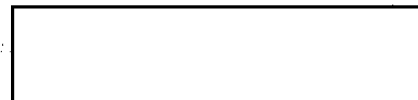
R74: H

\*OGC Has Reviewed\*

23 September 1954

MEMORANDUM FOR: Special Tax File

SUBJECT : Reimbursement by Agency for U. S. Income Tax of Individual Taxpayer



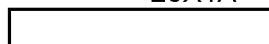
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1. [redacted] of this office and the undersigned today discussed with Mr. Harold Swartz (Head, Technical Rulings Section, Technical Division, Internal Revenue Service) the matter of reimbursement to a taxpayer (employee) of the Agency for his U. S. income tax obligation. (The matter came to a head and has presented a policy problem for the Agency regarding whether or not such tax should be reimbursed, and, from a technical tax standpoint, the question of whether the Agency would be required to pay the "tax-on-tax.")

2. Mr. Swartz stated that the payment of one individual's income tax by another would result in additional taxable income to the former to the extent of the tax itself and that where there was an agreement on the part of the second person to pay "the U. S. tax of the taxpayer" the IRS would require that the so-called "tax-on-tax" formula be applied. This is an algebraic progression decreasing to zero that has been developed for use by the World Bank, United Nations, and various international organizations where they have sought to make the salary income tax free. Where, however, the obligation of a second person to pay the tax is limited to the salary paid to the taxpayer, the additional income resulting from payment of the tax would be carried only one step, but the taxpayer would then be required to pay the difference between his salary income and the salary income increased by the amount of the reimbursed tax.

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Assistant General Counsel

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Sp. Tax misc. file

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